

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION GENEVA

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC SUGAR POLICY

REF: (A) EC BRUSSELS 7715; (B) LONDON 12995; (C) EC BRUSSELS 5239

1. BEGIN SUMMARY: FUTURE EC SUGAR POLICY IS EXPECTED TO DOMINATE

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DISCUSSIONS DURING THE OCTOBER 21 SESSION OF THE EC COUNCIL OF

AGRICULTURAL MINISTERS. CHANCES APPEAR GOOD FOR COUNCIL AGREEMENT
ON SUGAR IMPORT

SUBSIDY SCHEME. APPROVAL OF IMPORT SUBSIDIES WOULD LIKELY TORPEDO AN
AUSTRALIA/UK SUGAR SUPPLY AGREEMENT. THE COUNCIL WILL ALSO DISCUSS
BUT IS UNLIKELY TO ADOPT AT THIS TIME A PROPOSED REGULATION ON THE
FUTURE SUGAR CAP WHICH INCLUDES PROVISIONS ON PREFERENTIAL
TREATMENT FOR SUGAR FROM DEVELOPING COUNTRIES. END SUMMARY.

2. THE EC COUNCIL OF AGRICULTURAL MINISTERS MEETS IN LUXEMBOURG
ON OCTOBER 21. THE PRINCIPAL TOPIC UNDER DISCUSSION WILL BE SUGAR.
THIS DISCUSSION ON SUGAR WILL REVOLVE AROUND RECENT COMMISSION
PROPOSALS REGARDING IMPORT SUBSIDIES, DOMESTIC PRODUCTION
ARRANGEMENTS BEGINNING IN 1974/76, AND PREFERENTIAL TREATMENT FOR
SUGAR FROM DEVELOPING COUNTRIES.

3. LARDIHOIS REPORTEDLY CONSIDERS THE COMMISSION PROPOSAL FOR
SUGAR IMPORT SUBSIDIES AS A "POLITICAL COUP" WHICH SHOULD
DEMONSTRATE, PARTICULARLY TO UK ANTI-MARKETEERS, THE "FLEXIBILITY"
OF THE CAP IN RESPONDING TO SPECIAL NEEDS AND NEW SITUATIONS.
UNDER THE PROPOSAL, EC-FINANCED IMPORT SUBSIDIES WOULD BE GRANTED FOR
RAW AND REFINED SUGAR UNTIL JULY 1, 1975, THE BEGINNING OF
THE 1975/76 SEASON. THE AMOUNTS OF THE SUBSIDIES WOULD BE
DETERMINED THROUGH A TENDER SYSTEM. EC TRADERS PERIODICALLY
WOULD SUBMIT BIDS TO THE COMMISSION ON THE AMOUNT OF IMPORT SU-
SIDIES FOR WHICH THEY WOULD IMPORT A STATED AMOUNT OF SUGAR.
ON THE BASIS OF THESE BIDS, THE COMMISSION WOULD FIX
A MAXIMUM LEVEL OF SUBSIDY. BIDS FOR SUBSIDIES NOT EXCEEDING
THE MAXIMUM SUBSIDY AMOUNT WOULD BE ACCEPTED. SALES OF SUB-
SIDIZED SUGAR ON THE COMMUNITY MARKET WOULD HAVE TO BE AT A
PRICE BELOW THE EC THRESHOLD PRICE.

4. THE PROPOSAL IS CUNNINGLY DRAFTED SO AS TO APPEAL TO
EXPORTING MEMBER STATES (FRANCE) AS WELL AS TO IMPORTERS SUCH AS
THE UK AND ITALY. TRADERS WHO AVAIL THEMSELVES OF THE IMPORT
SUBSIDY PROGRAM THIS YEAR WOULD BE ALLOWED TO EXPORT A CORRESPOND-
ING QUANTITY OF SUGAR TO THIRD COUNTRIES IN 1975/76. THESE EXPORTS
WOULD BE EXEMPT FROM EXPORT LEVIES. IF, AS COMMUNITY OFFICIALS
EXPECT, WORLD MARKET PRICES REMAIN ABOVE EC PRICES IN 1975/76,
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TRADERS EXPORTING SUGAR WITHOUT BEING ASSESSED EXPORT LEVIES
WOULD STAND TO MAKE VERY HANDSOME PROFITS. COMMISSION OFFICIALS
EXPECT THAT, IN ANTICIPATION OF HIGH PROFITS FROM EXPORT SALES,
TRADERS WOULD TEND TO BID FOR LOWER IMPORT SUBSIDIES THAN WOULD
OTHERWISE BE THE CASE. IN THIS WAY THE COSTS OF THE SUBSIDY
PROGRAM WOULD BE LESSENED TO SOME EXTENT.

5. THE COMMISSION PROPOSAL WOULD NOT LIMIT THE QUANTITY OF SUGAR FOR WHICH SUBSIDIES COULD BE GRANTED. UK PERM DEL SOURCES STATE THAT QUANTITIES HAVE NOT BEEN DISCUSSED IN THE SPECIAL AGRICULTURAL COMMITTEE. PRESS REPORTS, HOWEVER, INDICATE THAT IN THE UK ALONE, BETWEEN 300,000 TO 500,000 TONS OF SUGAR PROBABLY WOULD BE IMPORTED UNDER THE SUBSIDY PROGRAM. ITALY ALSO WOULD BE EXPECTED TO AVOID ITSELF OF THE PROGRAM.

6. GERMANY REPORTEDLY IS THE ONLY MEMBER STATE THAT HAS COMPLAINED IN THE SPECIAL AGRICULTURAL COMMITTEE ABOUT THE POTENTIAL COSTS OF AN OPEN-ENDED SUBSIDY PROGRAM AS PROPOSED BY THE COMMISSION. LARDINOIS HAS TOLD THE PRESS THAT THE PROGRAM WOULD COST FEOGA ABOUT 36. MILLION U.S. BUT OUR SOURCES SAY THIS ESTIMATE IS FAR TOO LOW.

7. UK PERM DEL SOURCES THINK IT "PROBABLE" THAT THE COUNCIL WILL ADOPT THE IMPORT SUBSIDY PROGRAM ON OCTOBER 21. FRANCE HAS ATTACKED THE PRINCIPLE OF GRANTING IMPORT SUBSIDIES BUT OUR SOURCES THINK THEIR ATTACKS ARE FOR COSMETIC PURPOSES ONLY. THEY EXPECT FRENCH AG MIN BONNET TO APPROVE THE PROGRAM, SINCE IT DOES OFFER BENEFITS TO FRANCE--ACCESS TO EXPORT MARKETS WITHOUT BEING HINDERED BY EXPORT LEVIES, AND STIMULUS TO PRODUCTION FROM INCREASED DEMAND. THE UK REPORTEDLY FINDS THE SUBSIDY PROGRAM VERY APPEALING AND TOO GOOD TO REJECT. ACCEPTANCE OF THE PROPOSALS PROBABLY WOULD BE THE DEATH-KNELL FOR A BILATERAL UK-AUSTRALIA SUGAR DEAL.

8. ON OCTOBER 16 THE COMMISSION FORMALLY SUBMITTED TO THE COUNCIL ITS PROPOSAL ON THE FORM OF THE SUGAR CAP BEGINNING WITH THE 1975/76 SEASON WHEN THE CURRENT PRODUCTION QUOTA ARRANGEMENTS WILL HAVE EXPIRED. THE PROPOSAL FOLLOWS CLOSELY THE GUIDELINES SET FORTH BY THE COMMISSION IN ITS JULY 1974 COMMUNICATION TO THE LIMITED OFFICIAL USE

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COUNCIL (SEE REF. C). THE PROVISIONS CONCERNING TRADE WITH THIRD COUNTRIES (ON A NON-PREFERENTIAL BASIS) RE ESSENTIALLY UNCHANGED FROM THE PRESENT PROVISIONS. ON THE PRODUCTION SIDE, BASE QUOTAS ("A" SUGAR) WOULD BE ENLARGED TO A TOTAL OF 8.54 MILLION MT AND WOULD BE ALLOCATED BY THE COUNCIL DIRECTLY TO MANUFACTURERS. MAXIMUM QUOTAS ("B" SUGAR) WITHIN WHICH SUGAR IS SUBJECT TO PRODUCTION ASSESSMENTS, WOULD BE EQUAL TO 35 PERCENT OF BASE QUOTAS. IN PRINCIPLE, ALL SUGAR PRODUCED ABOVE THE MAXIMUM QUOTAS (SO-CALLED "C" SUGAR) WOULD BE EXPORTED WITHOUT BENEFIT OF EXPORT SUBSIDIES.

9. THE PROPOSED SUGAR CAP INCLUDES SPECIAL PROVISIONS RELATING TO PREFERENTIAL TREATMENT OF SUGAR FROM DEVELOPING COUNTRIES (ACP COUNTRIES AND INDIA). THE DETAILS OF THIS SPECIAL PRO-

VISIONS WILL BE TRANSMITTED BY SEPTEL.

10. IT IS DOUBTFUL THAT THE COUNCIL WILL REACH AGREEMENT AT ITS OCTOBER 21 SESSION ON THE COMMISSION PROPOSALS FOR A NEW SUGAR CAP GIVEN THE COMPLEXITIES OF THESE PROPOSALS AND DIFFERENCES OF OPINION AMONG THE MEMBER STATES ON THE SIZE OF PRODUCTION QUOTAS AND METHOD OF ALLOCATION. HOWEVER, THE COUNCIL MAY BE ABLE TO REACH AN AGREEMENT IN PRINCIPLE ON THE BROAD OUTLINES OF A NEW SUGAR CAP. GREENWALD

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